United States
Office of Personnel Management

Washington, D.C. 20415

In Reply Refer To

Your Reference

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes." This proposal would implement recommendations contained in the President's budget for fiscal year 1986. We request that you refer this proposal to the appropriate committee for early consideration.

At present, the Civil Service Retirement System is extremely expensive, having a dynamic normal cost of approximately 34.9 percent of payroll, which is considerably more than private sector pension plans cost. Furthermore, the System has a massive unfunded liability of $528.1 billion as of September 30, 1983--more than a half trillion dollars in debt. Even ignoring the unfunded liability resulting from future pay raises and future cost-of-living adjustments, the unfunded liability (the so-called "static" unfunded liability) was $187.9 billion in 1983.

In order to deal with the excessive cost of the Civil Service Retirement System, and its huge debt, and in order to bring its benefits more into line with private sector pension plans, this draft bill would make several changes in the System, while preserving an adequate level of retirement income for Federal employees.

1. Under the proposal, the determination of an individual's average pay for the purpose of computing retirement benefits would use the highest earnings over a five-year period, rather than three years as at present. This change would not take effect until October 1, 1988, and would not affect anyone eligible to retire by that date.

2. Although no change would be made in the age at which individuals may retire, a reduction in benefits for retirement before age 65 would be phased into the program. Currently, unreduced benefits are available to individuals with thirty years of service who retire as early as age 55. This change would not affect anyone who reaches age 55 by October 1, 1985.

3. The current practice of counting unused sick leave as service for annuity computation purposes would be discontinued. Credit would be gradually phased out over a four-year period beginning in October 1985.

Several changes would be made with respect to cost-of-living adjustments (COLA's) in Civil Service Retirement annuities. First, the adjustment scheduled for December 1985 would not take effect. Then, beginning with the December 1986 COLA, full COLA's would be applied only to the first $10,000 of annuity (increased in subsequent years by the COLA percentage for the preceding year), with any annuity over that base amount being adjusted by 55 percent of the COLA.
4. Adjustments would be based on the lesser of (1) the General Schedule pay increase effective in the same fiscal year or (2) the change in the Consumer Price Index (CPI). With the exception of the elimination of the December 1985 COLA, these COLA changes are not intended to affect military retirees, and a provision in the bill would exclude military retired and retainer pay from application of the changes in the COLA methodology in future years.

5. Eligibility rules for surviving spouses, former spouses, and individuals named as having an insurable interest in the employee or Member would be changed to parallel more closely the treatment of similarly situated survivor beneficiaries under the Social Security System. Benefits would not be payable for any month during any portion of which the widow, widower, former spouse, or insurable interest designee has not reached age 60, has not attained age 50 if disabled, or does not have in his or her care a surviving child of the employee, Member, or annuitant.

6. Further changes would be the phasing out of survivor benefits for post-secondary students and the elimination of the minimum annuity for future beneficiaries. These changes would be consistent with changes made in the Social Security System several years ago.

Employees of the government of the District of Columbia hired on or after October 1, 1985, would be excluded from the Civil Service Retirement System, the Federal Employees' Group Life Insurance Program, and the Federal Employees Health Benefits Program. In view of the District's authority under home rule to manage its affairs with less dependence on the Federal Government, it is no longer appropriate for District employees to be carried under the benefit programs for Federal employees.

In addition, the proposal would require the United States Postal Service and the District of Columbia government to contribute to the Civil Service Retirement and Disability Fund an additional 2 percent of basic pay each year until their payments, when combined with employee deductions, are sufficient to cover the dynamic normal cost of the Retirement System.

The proposal would also authorize the Secretary of the Treasury to implement procedures within 24 months of enactment to permit identification of Civil Service Retirement benefit checks that have not been presented for payment within 6 months, and would authorize annual appropriations to the Fund for future benefit checks remaining uncashed after 6 months. Currently, money drawn from the Fund for Civil Service Retirement checks is not returned when checks are not negotiated.

We estimate that the proposed changes in Civil Service Retirement would produce the following net savings for the unified budget:

Fiscal Year 1986	$ 883 million
Fiscal Year 1987	1,803 million
Fiscal Year 1988	2,613 million
Fiscal Year 1989	3,627 million
Fiscal Year 1990	4,699 million
1986-90 total	$13,625 million

We believe this proposal is particularly significant in that it clearly demonstrates this Administration's commitment to sound management by eliminating unwarranted expenditures, obtaining funds from appropriate sources, and restoring Federal workers and retirees to a position which is more consistent with that enjoyed by other individuals throughout our economy.

The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the President of the Senate.

Sincerely,

Donald J. Devine
Director

Enclosures